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THESIS

THE SUITABILITY OF FIXED PRICE AWARD FEE CONTRACTS FOR THE NAVY COMMERICAL ACTIVITIES PROGRAM

by

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SUITABILITY OF FIXED PRICE AWARD FEE CONTRACTS FOR THE NAVY COMMERCIAL ACTIVITIES PROGRAM

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ABSTRACT

Office of Management and Budget (OMB) Circular A-76 established Federal policy concerning the performance of commercial activities (CA). The Circular establishes criteria for conducting cost comparison to determine whether a CA is more economically performed by the Government or by the private sector. Performance by the private sector is accomplished through the formation of contracts. The research of this ~~study~~ thesis focused on the suitability of fixed price award fee (FPAF) contracts for private sector performance of commercial activities. Research included a review of existing guidelines, interviews with managers and policy makers, and examination of four specific cases where FPAF contracts were employed on an experimental basis to determine their benefits and detriments. The study concludes that FPAF contracts may be suitable, but that more fundamental changes in the commercial activities program are necessary and should precede wide use of FPAF contracts.

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The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.

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I. INTRODUCTION

A. GENERAL COMMENTS

For many years the Federal Government's policy has held that it was in the national interest to rely to the greatest extent possible upon private industry for goods and services. In order to render support to the notion that competitive private enterprise was important to national economic health, the Office of Management and Budget published OMB Circular A-76 on 3 March 1966, which made reliance on private enterprise mandatory for Government agencies except in such areas as national security and the "act of governing."

While policy dictated that the Government rely on private enterprise to the maximum extent practical, industry's share of Federal budget outlays was shrinking noticeably until the mid-1970's. At that time, federal purchases of private goods and services became an issue taken up in lobbying efforts by some industry groups. For example, the Aerospace Industry Association contended that as a percentage of the total federal budget, private industry's share of outlays had dropped from 53% in 1965 to 34% in 1976 [Ref. 1:p. 6]. The validity of their

claim notwithstanding, it was intended to draw attention to the fact that Government managers had not been given any incentives to prefer contracting over in-house production despite the existence of A-76. The commercial activities policy had been in force for ten years when recognition to the growing number of in-house Government commercial and industrial activities drew increased attention.

1. A-76 and the Concept of Efficiency

The Government generally is not considered as efficient as the private sector. This notion stems from the perception that bureaucracy creates barriers to efficiency, and was reported as such by the Packard Blue Ribbon Commission in its final report on Defense Management to the President in 1986. Circular A-76 was designed and has evolved to produce a set of review procedures to assure a greater degree of economic efficiency in the performance of commercial activities.

2. Concepts of the CA Program

What exactly does the term "commercial activity" mean? Commercial Activities are functions either contracted or operated by a field activity or headquarters that provide products or services obtainable from a commercial source [Ref. 2:pp. 1-2]. As a result

of less than acceptable reliance on the private sector during the early years of A-76, intervention from OMB resulted. Since 1976, that intervention was aimed at placing more emphasis on the goal of the CA program, which is that the Government should rely upon competitive procurement for the goods and services it consumes whenever and wherever practical.

The policy of creating a competitive market for Commercial Activities is stated in the most recent version of OMB circular A-76 published in August 1983:

> The Government should not compete with its citizens and the competitive enterprise system should be fostered by the Government. Purchasing goods and services from the commercial marketplace instead of manufacturing those goods and services with tax revenues is essential to the enhancement of competition, and the furtherance of quality, economy, and productivity. [Ref. 3]

3. Why Contract-Out?

The way to execute the policy is not simple. If the Government is to provide a given level of output it can produce that output by long term contracts for labor and capital (explicit or implicit) or it can use a series of short term contracts (CA). Essentially this is a make-or-buy decision. Many variables must be considered in the effort to create competitive markets, and many decisions based on value judgments must be made. Creating contracts in either situation will impose

differential transactions costs. The policy is designed to minimize those costs and foster economic efficiency. There is considerable debate regarding the best course of action to take regarding Government's use of commercial contracts to become more efficient. For this and other reasons as shall be discussed, the A-76 policy has been the subject of much rhetoric, especially in light of the recent report tendered by President's Commission on Privatization, headed by David F. Linowes. Mr. Linowes contends the Government should divorce itself from a broad range of traditional responsibilities via privatization and contracting-out [Ref. 4].

In the CA program, businesses compete with the Government for the award of service contracts, and are awarded the contracts when their price is demonstrably lower than if the Government performed the service for itself. The A-76 directive has resulted in the study of 18,436 civilian positions and 3,496 military positions in the Navy through the end of FY 1987, resulting in a net program payback of $495.2 million [Ref. 5].

Recent attention has focused on the contractual issues collateral to the CA policy issues because the contracting process itself has become a morass of regulations and policies designed to afford recognition

for nearly every contingency. The Packard Commission identified 394 regulatory requirements in the Federal Acquisition Regulation tied to 62 different dollar thresholds. They stated: "At operating levels within DoD, it is now virtually impossible to assimilate new regulatory refinements promptly or efficiently." [Ref. 6:p. 55].

The regulatory environment has contributed to some dysfunction in the CA program as will be shown. Recognizing the validity of the Packard Commission's observations, terms like "streamlining" have been seen more frequently in acquisition programs and correspondence.

4. Regulatory Reform and the CA Program

Attention has focused on the necessity to streamline the CA contracting process and make the smart thing to do, the "easy" thing to do. Procurement regulatory reform has been a major initiative of the Under Secretary of Defense (Acquisition) in 1986 and 1987 [Ref. 7]. For the commercial activities program, this translates to the conduct of cost-comparison studies and the award of contracts based on prudent business practices and streamlined decision loops which afford the best use of tax dollars.

Efforts have been directed toward the establishment of practices and policies which focus on transactions: quality of performance (better value) at reasonable cost, not merely "least-cost". [Ref. 8:pp. 9-12] These efforts will be addressed in Chapter III.

Other factors aimed at reducing differential transactions costs include the types of contracts written, standardization of procedures, the introduction of "closer to the trenches" decision making and reduction of onerous paperwork requirements are contributing to stream-lining in the CA Program [Ref. 8:pp. 12-14].

5. Main Focus of the Thesis

This thesis focuses on performance issues in the CA program, from both a conceptual and user/observer perspective. Fixed price award fee contracts are evaluated as a contracting alternative which may alleviate **some** of the persistent performance problems.

B. OBJECTIVE OF RESEARCH

The objective of this research effort is to determine the benefits and detriments associated with the use of Fixed Price Award Fee contracts in the Commercial Activities Program, and to recommend a course of action

with respect to the use of FPAF contracts (specifically in the services area) which would benefit the Navy.

The Fixed Price Award Fee (FPAF) instrument is presently being used experimentally as a means to explore the benefits of alternative contract types for base support services. The potential benefits are:

1. Enhance the quality of contractor performance.
2. Focus more on end-results and less on "second guessing" in contract specifications.[1]
3. Decouple the source selection process for base service support contracts from the "buy-in" methodology common to the sealed-bid, fixed price contract source selection process.[2]

Potential draw-backs are:

1. FPAF contracts require more administration.
2. FPAF contracts may cost more than firm fixed price.
3. It may be difficult to measure the superiority of FPAF contracts over alternative contract types without established standard criteria.

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[1] "second guessing" refers to the writing of specifications which are over-detailed, trying to consider every aspect of potential performance inadequacy.

[2] The term "buy-in" is used in reference to a bid for services which the prospective contractor knows is too low, but is willing to submit in order to be awarded the contract and then use contract clauses and language to increase the price and recover the cost of performance.

C. RESEARCH QUESTIONS

1. Primary Research Questions

Can it be demonstrated that the potential for benefits in the use of Fixed Price Award Fee service contracts indicates a need for policy modification? When are FPAF contracts preferable to firm fixed price (FFP) contracts?

2. Subsidiary Questions

a. What are some alternative means of structuring the award fee component of Fixed Price Award Fee (FPAF) Contracts?

b. What are the primary differences between the hybrid FPAF and FFP contracts?

c. What is the Navy buying with an award fee contract and can the Navy justify the cost and the use of FPAF in head-to-head cost comparisons with Government versus Contractor bids?

D. SCOPE OF THE THESIS

The thesis will focus on the use of award fee incentive arrangements as a potential method of choice in awarding base services contracts. Discussions with the Office of the Chief of Naval Operations (OP-443) resulted in a recommendation that the search for information in this effort be directed toward activities with similar

missions, for example, activities charged with facilities management. That way, the inquiry would make easier, clearer comparison of the data because it would be corroborated by similar administrative agendas. Interviews with contractors and contract administrators could be done using the same organizational vocabulary and frame of reference.

E. METHODOLOGY

Preliminary research included a complete review of the history of the CA program and its implementing directives, and a search of literature including GAO reports, congressional testimony, research papers, articles, pamphlets and correspondence. Interviews were conducted with Navy Department-level managers in Washington, DC, policy administrators at Navy contracting field activities, activity-level contract administrators and contractor personnel.

The aspects of the hybrid FPAF contract were discussed and the details concerning the structure and use of award fees for incentivizing performance were examined from a procedural and end-user view point. East and West Coast Naval Facilities Engineering Command (NAVFAC) activities using FPAF contracts were asked for information, and that information is basic to this

thesis. **Primary observations** collected from the field are the foundation supporting the conclusions of the research.

F. DEFINITIONS

The following definitions and terms are applicable to concepts discussed in the thesis.

1. Commercial Activities (CA)

A severable[3] Government activity identified as one which can be performed by contract or by the Government without impediment to defense mobilization capabilities or other Military essential functions. Commercial Activities are on-going regularly performed functions integral to the mission of the Department of Defense (DoD) which provide a service or product obtainable from a commercial source [Ref. 2:pp. 1-2].

2. Cost Comparison

A process for determining the economies of procuring services or products from a commercial or Government source using specific procedures. The cost comparison is the basic frame of reference in deciding whether or not to contract-out. [Ref. 2:pp. 1-2]

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[3]Severable referring to an activity which can be segregated from other activities for the purpose of performing it by contract.

3. Conversion

The transition from Government performance at a CA to contractor performance (private sector). Terms associated are usually "in-house" for Government performance or "contact" for private sector performance. [Ref. 2:pp. 1-3]

4. Government Function

A function which is so intimately related to the public interest as to mandate performance by Government employees [Ref. 2:pp. 1-3]. Within DoD, Government functions will include any activity which embodies essential defense activity such as mobilization, combat forces, operational units, and activities vested with the safeguard of national security.

5. Review

The examination of a function to determine whether the present method of performance should be continued, or whether the function should be scheduled for a cost comparison for possible change in the method of performance. [Ref. 2:pp. 1-4]

6. Full Time Equivalents (FTEs)

A normal work-year is 2080 hours of effort. For each 2088 hours of effort required to perform a task,

there is said to be one FTE. It is the Government standard for one man-year of work.

G. THESIS ORGANIZATION

In this thesis, the reader will be introduced to the history of the CA program, how Government has acquired defense related goods and services, and development of the CA program by OMB. The thesis begins with an outline and chronology of the CA program in Chapter I.

Chapter II contains an explanation of the mechanics and the iterative processes associated with cost comparisons in the CA program, then outlines seven specific performance problems which were prevalent in the course of the research.

Chapter III outlines the mechanics of the Award Fee contract, explains the processes Navy activities must follow to use Award Fee contracts in commercial activities, and presents some economic criteria for selecting between contract alternatives.

Chapter IV presents a review of primary information sources and synopsis of primary observations. This is accomplished by summarizing four FPAF contract case studies from four different locations. Each case was selected from a limited population of FPAF contracts within Naval Facilities Engineering Command. Each case

has one or two unique characteristics which contribute to perspective vis-á-vis the research questions.

Chapter V presents independent analysis. Attempting to draw focus and closure to the relevant issues surrounding the use of Award Fees with Fixed Price contracts, the chapter will expand on observations made in the body of the text, and make recommendations for the improvement of A-76.

II. COMMERCIAL ACTIVITIES PROGRAM BACKGROUND

A. CHRONOLOGY

Concern over the Government engaging in competition with private enterprise is not a new issue. Policy makers have recognized the potential for excessive Government interference in private markets since the post-depression era. The first detailed inquiry into this matter was made in 1932 by a special committee of the House of Representatives. Later studies of various aspects were made by the Appropriations committees in both Senate and House. In 1955, the second Hoover Commission presented 22 recommendations aimed at reducing Government absorption of private markets. That same year the Senate committee on Government Operations introduced a bill to write those recommendations into law. Action was postponed because the Budget Director testified that the executive branch had a program underway to accomplish the needed changes administratively. January 15, 1955 the Bureau of the Budget issued bulletin 55-4 which essentially started the Commercial Activities Program.

Bulletin 55-4 was superceded in 1966 by OMB Circular A-76, which rests on three precepts:

1. Retain essential Government functions in-house.

2. Rely on the Commercial Sector to the maximum extent practical. This includes the identification of Commercial Activities, reporting of CA inventories, and monitoring of contract costs to determine the extent to which reliance on the private sector is warranted.

3. Achievement of economy and productivity through Government-Industry competition. Costs comparison shall determine who will do the work.

Circular A-76 further set forth guidelines for circumstances when in-house performance for a commercial activity was justifiable without cost-comparison:

1. Procurement of a product or service from commercial source would disrupt or materially delay an agency's program.

2. A commercial activity is operated in support of combat readiness, mobilization readiness, or for individual and unit retraining of military personnel.

3. A satisfactory commercial source is not available and cannot be developed in time to provide a product or service when it is needed.

4. The product or service is available from another Federal agency.

5. Procurement of the product or service from a commercial source will result in higher cost to the Government. [Ref. 3]

The concept of increased efficiency, lower costs, and increased private sector involvement in commercial activities has received wide-spread support in the

executive and legislative branches. Unfortunately, the creation of the program resulted in the perception that "contracting-out" was being mandated. Government agencies were resistant to the notion of contracting-out for services. The program did not provide managers incentives for embracing a transition to increased efficiency through contracts for commercial activities.

The program came under increasing criticism because it seemed as if a burgeoning bureaucracy was growing in the effort to implement and administer the program. Different Government agencies and activities formulated different ways of handling A-76 and still more scrutiny was applied because nearly all of the agencies which had been directed to comply with A-76 were experiencing difficulty with their versions of the implementing directives. Federal purchases of private goods and services declined from 30% of federal outlays in 1965 to 18% in 1976. Although the dollar value of these purchases had more than doubled from $66.9 billion to $130 billion respectively [Ref. 1:pp. 4, 15], the Federal Budget had tripled from $126.5 billion to $380.8 billion. It was this trend in "intramural" activity which triggered lobbying efforts by the aerospace industry to assert their contention that there had been a

lack of effective implementation of A-76 [Ref. 1:p. 12-13].

As a result of these events, a full review of the program began in 1977. In 1979 the revised edition of A-76 defined the steps which an executive agency should take in order to decide whether or not to contract-out a function. The basic tenet that contracting-out was the option of choice unless there were extenuating circumstances did not change.

During the first years of the Reagan administration Budget Director David Stockman initiated a review of the A-76 program. In 1984, CA program savings were targeted at $1 billion annually by 1988 [Ref. 9]. There was a crusade to revise the cost-comparison methods and streamline them.* Again revisions were made to the basic directive aimed at clarifying issues and simplifying the process while affording recognition to equity. On 19 November 1987, President Reagan signed Executive Order 12615 placing new emphasis on the goals of the CA program. Those goals will be discussed later.

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*The plural term "programs" requires emphasis. Today there are many different agency approaches to the implementing A-76 directive. Although it is not an issue of this thesis, the issue of standardization for A-76 programs Government-wide is an important area with considerable potential for further study.

Summarily, the A-76 program is complex and under frequent change and scrutiny. As a result, contractors formed a lobby to promulgate their interests in Washington, DC.[3] The CA program requires the employment of special offices charged with oversight and administration at Departmental (Navy) level, special assist teams to interpret rules and regulations, and activity-level program administrators whose only duty is to gather statistics and perform CA studies. It is an expensive program.

The myriad of policy issues which stemmed from the program over its 32 year history range from retraining of displaced employees to the use of automated decision support systems.[4] From 1 October 1980 through 31 December 1982, GAO issued 10 reports concerned specifically with A-76. Eight of the reports resulted from congressional request and two were initiated by GAO. Since 1982, many more published and unpublished GAO reports have been issued. Allegations of impropriety have been made, and the program continues to spawn controversy.

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[3]The lobby is called the National Association of Government Service Contractors.

[4]expert systems designed to computerize portions of the contract-out decision process

B. A-76 PROGRAM FRAMEWORK

In order to understand the issues of this thesis insofar as the use of FPAF contracts for CAs, it is necessary to present a description of CA program milestones and subordinate processes within the Navy and address procurement issues arising from those milestones. The first step is a look at the current program implementation. This includes:

1. Determining which functions are CAs
2. Inventorying of CA functions
3. Conduct of CA studies
   a. Preparation of Performance Work Statements (PWS)
   b. Determination of Most Efficient Organization (MEO)
   c. Pricing and Competition
4. Contracting
   a. risk apportionment
   b. contract administration

1. Determining Which Functions Are CAs

There is a thirteen step process which is used to arrive at a decision whether or not to contract-out a function. It begins with decision as to whether the function is Governmental or commercial. Criteria defined in the implementing directives [Ref. 2] are used to determine whether a function meets the definition of a CA. If so, it is included in the Navy wide inventory of CAs.

2. Inventorying of Activities

The accumulation of the CA inventory at installation and Navy level enables management to keep track of which activities have been studied, which remained in-house, and which ones were contracted-out. A review of each function in the inventory is conducted every five years to re-evaluate whether the function is being performed in a cost-effective and operationally effective manner.

3. Conduct of CA Studies

Functions which are staffed by fewer than ten FTEs are not subject to study at the discretion of the local Commanding Officer. Those functions with more than ten FTEs are reviewed systematically. The review is conducted every five years, whether or not the function is under contract or in-house.

a. Preparation of Performance Work Statements

The first part of the study is the task of describing the work performed by a function in contractual terms. This description is called the Statement of Work, and is the document used to solicit bids from contractors and the Government for the price of performance. The PWS defines all of the specifications and standards for performance, and also defines levels of

quality required in performance. Once the PWS has been planned and written, the Government must decide how best to implement staffing for the PWS in order to enter a competitive bid for the function. This process is called Most Efficient Organization.

b. Most Efficient Organization

In order to "bid" its costs in a head-to-head competition, the Government performs several tasks. First, personnel costs, equipment costs, support costs, logistics costs, and a myriad of details are appraised to assemble a Government cost-of-operation. A-76 has a published supplement called the Cost Comparison Handbook which contains criteria for assembling and calculating these costs. The Government must then determine the most efficient alternative in organization and grade structure to accomplish the tasks set forth in the PWS. When the process is complete, the Commanding Officer approves the MEO and it forms the basis for the Government "bid" in cost-comparison.

When the commander decides which organizational structure is best, s/he **must** align the organization that way if the Government wins the bid competition and retains performance of the function. The Most Efficient Organization becomes a part of the

Government "contract" and cannot be changed without formal review.

c. Pricing and Competition

Once the PWS has been written and the MEO has been selected, the Government bid is computed and becomes proprietary information, not disclosed to unauthorized persons. Based on the contents of the PWS, contractors bid the price of their services, and if the contractor bid is less than the Government bid by more than ten percent, the contractor wins and the function converts to contract performance. The ten percent difference is called the conversion differential. It is an arbitrary percentage established by OMB to account for the intangible costs which may arise during the conversion process. It should be noted that this competition may take place when a function is placed in the CA inventory initially or during a subsequent review of the function.

There are three options for selecting a source for the contracted work. The process itself is entitled Source Selection.

1. Sealed Bid. A preferred method for CAs until recently, the Sealed Bid is a selection based on price alone. The bids from the Government and contractors are publicly opened on a specific date, and the low

bidder who is "responsive and responsible" according to guidelines in the FAR is awarded the contract.

2. Two Step. This is a "negotiated procurement" process using a Request for Technical Proposal where contractors submit unpriced technical proposals to the Government prior to bid opening. The Proposals give the contracting officer an opportunity to review the technical, managerial, and financial capabilities of the prospective competitors in order to determine whether they are able to perform the contract as specified.

3. Source Selection. The Source Selection is a more sophisticated process wherein requirements, facts, recommendations and Government policy relevant to an award decision in a competitive procurement are examined and the decision on which party gets award is made. DoD Directive 4105.62 emphasizes that the objectives of Source Selection are to:

1. Select the source whose proposal has the highest degree of realism and credibility.
2. Assure impartial, equitable, and comprehensive evaluation of competitors' proposals.
3. Maximize efficiency and minimize complexity of the solicitation, the evaluation, and the selection decision.

The three methods of source selection discussed here may have an impact on the likelihood of success in CA contract performance, as will be discussed in the next section.

4. Contracting

When a CA is evaluated for contracted performance, consideration must be given to several decision variables. FAR 16.104 offers a list of ten such variables used to approach the contracting decision. Sherman expands further on those factors in his discussion on contract-type selection [Ref. 12:p. 336]. In CA contracting, the objective of the Government is to provide the Contractor with a degree of cost responsibility and incentive which is consistent with the risks to be taken during performance. The vehicles for accomplishing this objective are the varying types of contracts. Accordingly, one of the chief responsibilities of the contracting officer is to select the type of compensation arrangement best suited to the purpose of the contract. For example, an important factor is the effort required to administer the contract. Contract administration begins to resemble production management for some of the larger and more sophisticated contracts. It can be labor intensive and can be costly.

Equally important, the nature of the activity being contracted-out will require that decisions be made as to the risk exposure for the Government and for the contractor.

a. Risk Apportionment

Risk apportionment is one function served by contracts, and the decision to contract-out in the first place means that the Government must ensure that the function is performed according to the terms and specifications of the contract. In this context, the term risk alludes to such things as cost escalation, contractors' experience and abilities, and the extent of control than can and should be maintained over the contractor's operations. Risk must be carefully evaluated, and contingencies must be considered in greater detail with contracted performance. Insofar as cost risk is concerned, the DoD position is that when a reasonable basis for firm pricing exists, the firm fixed price contract should be used because its use under these circumstances will provide the contractor with a maximum profit motive to control the cost of performance. As will be shown, this method of risk apportionment is pivotal in the CA contracting process inasmuch as services are more difficult to write contracts for, and

hence the risk apportionment issue becomes more stochastic.

b. Contract Administration

Subsequent to contract award, contract administration begins. Where many contracts require routine and uneventful administration, the delivery and acceptance of the ordered items on time, services contracts require considerable effort which may include such things as:

1. clarifications of requirements
2. follow-up notifications
3. negotiating changes
4. performing inspections and verifications
5. working to overcome deficiencies, delays, claims, and problems arising from performance
6. verification of documents associated with payments and authorization of payment.

In contracting for services, terms and conditions are not the same as design specifications in hardware contracts. In services contracts, requirements specifications are spelled-out in the statement of work. In 100% of the services contracts examined in this research, both contractor and contracting office personnel made reference to problems or inadequacies with the PWS. These problems tend to expand all of the tasks

listed above in a CA services contract, and exacerbate strained relationships between contractors and the Government.

The use of alternative contract types to minimize problems resulting from the statement of work is one main focus of this paper, and will be discussed in Chapter IV.

C. PERFORMANCE ISSUES IN CA PROGRAM IMPLEMENTATION

Seven performance issues which arise from data collected in this study appear to capture much of the complexities and controversy in the current A-76 program. They are:

1. value judgments and subjectivity in the CA program
2. structural biases in the program are difficult to overcome
3. difficulty in writing a "tight" PWS
4. placing quality higher on the CA agenda
5. getting an accurate picture of program savings and costs is impaired because OMB standards do not reflect custom or practice in the field
6. sealed bid source selection with firm fixed price contracts does not offer a viable method of execution for most CA service contracts, yet:
7. OMB A-76 standards impose limitations which basically preclude consideration of alternative contract types, leaving decision makers less than needed flexibility in striving for cost-effective quality performance.

Expanding the discussion of these issues will show partly their relevance to the usefulness of FPAF contracts:

1. Value Judgments and Subjectivity in the CA Program

The CA contracting process has not risen from the type of risk assessment (joint strategic planning) used to acquire major weapons systems. It has risen from the basic premise that efficiency can be achieved through the application of the A-76 guidelines for commercial activities. In this vein, value judgments must be made. These may include decisions about organizational "MEO" staffing levels which afford considerations to exigencies, plans to expand certain activities or constrain them, end-strength and pay-grade mixes (manage-to-payroll) which best accomplish a mission, mobilization, and other decision variables. These judgments, while aided by the statistics produced in the cost comparison process, introduce subjectivity into the CA process. Hence, the continuing involvement of policy makers with the CA program has been due largely to the impression that:

1. Cost comparisons appear to take precedence over the principle of preference for the private sector.
2. Cost comparisons are made under a dual standard which favors in-house work.

3. DoD organizations will endeavor to find exceptions which allow a course of action they prefer.

4. The self interest of federal civilian employees conflicts with the policy, and this places bias in program implementation. [Ref. 1:p. 12]

In order for the CA program to achieve a more objective application, Navy policy makers encourage interaction at all levels in the chain of command involved in a CA study. This interaction is seen as a method to make use of the broadest perspective available in evaluating subjective decision variables without the removal of decision-flexibility. For example, the opportunity to award one FPAF "umbrella" contract for many services offers a chance to exploit economies of scale, but the current Navy instruction does not provide specific guidance on this issue, nor is there any discussion of alternative contract types and their recommended uses. Collateral to the issue of subjectivity, administration and execution of the A-76 directive is handled differently by the Navy Systems Commands [Ref. 7]. A study of these differences was undertaken by the Assistant Secretary of the Navy (S&L) in February 1988 to further evaluate the possibility of eliminating some of the subjective decision variables in the CA contracting process [Ref. 7].

2. Structural Biases in the Program are Difficult to Overcome.

Military Commanders at installations tend to want functions left in-house. Some point out that the Government has the technical knowledge, related equipment, and the experienced qualified people. The Government also has no performance bond requirements to meet or conversion differential to cover. These considerations cause a natural reluctance of involved personnel to pursue a process that may affect their own job security.

Commanders feel that contractor performance problems may be more awkward to solve as a customer vice having direct line authority. For example, the Base Commander receives short notice of an impending visit by a VIP. S/he activates a plan to ensure the cosmetic appearance of the base receives immediate attention, finding that the applicable contract for base support would require a change or the contractor unable to comply with the plan without added compensation. This frame of reference tends to shore-up the notion that loss of a function to contract is a loss of control and flexibility. Summarily, this frame of reference causes

some intransigence on the part of Base Commanders, and biases in favor of in-house performance may result.

Other biases may become manifest as a result of certain actions performed in the conversion process. For example, GAO completed a study at Fort Sill Oklahoma relating to an A-76 cost comparison performed for a multi-function award fee contract. The report, completed in December 1987, states that "Certain inequities" [Ref. 10:p. 1] were found in OMB rules for cost comparison which could bias cost comparisons toward contracting. Those cited were:

1. Award Fee Costs [Ref. 10:Table C]
2. Social Security and Thrift Plan Costs [Ref. 10:Table D]
3. Outdated Department of Labor Wage Rates [Ref. 10:Table E]

The study points out that the estimated cost of contracting-out for that particular function may be understated by as much as $2.7 million due to the exclusion from cost comparison of an award fee payable to the contractor. Through a series of reviews, a decision was reached in this case to revise the contract removing the award fee. GAOs conclusion was that:

> ...the cost comparison was biased in favor of contractors because costs for equal performance were

omitted. The Army has corrected this inequity by changing the award fee provision.

Congress could, however, still argue that the OMB rules are equitable in favor of contractors because they don't count award fee costs that are likely to be incurred. The reasons they are likely to be incurred are: we use the award fee process as an incentive to get the quality we want; we expect the contractor to earn an award; the contractor bases his bid on the expectation of earning an award; our experience is contractors typically earn about three quarters of the award fee available. [Ref. 10:Table C]

During the same review, GAO was advised by both OSD and the Army that other inequities in OMB rules could bias cost comparisons. GAO chose not to pursue those issues, but made mention of them in its report. They are:

1. Government overhead costs are not fully reflected in cost comparisons.

2. Government costs for save-grade/save pay are not included in cost comparisons.

3. 10% conversion differential is not based on any scientific study or method.

4. OMB rules overstate in-house severance pay and other one-time costs.

5. Government Quality control costs are not included in cost comparison, contractors quality control costs are. [Ref. 10:Table F]

A related commentary on the subject of quality control costs was made by The Center for Naval Analysis in its CA study in 1987. It said, "OMB QA **staffing standards** do not reflect custom or practice in the field." [Ref. 11:p. 2]. However, the allegation that quality control costs are "...not included in cost comparison..." in the Fort

Sill case is refuted by the wording in the A-76 Cost Comparison Handbook, where those costs are treated specifically as follows: "Contract administration costs are...the cost of reviewing contractor performance and compliance with the terms of the contract, processing payments, and monitoring contract closeout" [Ref. 3:p. IV-36]. The performance issue which arises is that contract administration costs are greater than OMB standards frequently enough to question the OMB standards, and that this fact may indicate a structural bias which should be examined further. Insofar as QA costs are treated as part of contract administration costs in OMB standards, a structural bias may result from the lack of segregation of these two types of overhead costs. Further, some program biases may exist by virtue of the fact that OMB CA program standards are not comprehensive enough for the state-of-the-art DoD acquisition environment.

3. Difficulty in Writing a "Tight" PWS

Defining the services to be performed in Statements of Work via requirements specifications has proven to be a major challenge, and has created its own set of problems [Ref. 12:pp. 47-49][Ref. 8:p. 10]. The performance issue is embracing quality performance

without having to write a PWS which is comprehensive to the point it becomes cumbersome. The CNO goal is simpler contracts with more workable contract specifications. [Ref. 13:encl. (2):p. 2].

4. Placing Quality Higher on the CA Agenda

Quality is an amorphous term with several meanings. For purposes of this thesis, quality in service contracts implies that the Government is getting its desired output sequence from the contractor, or "best value for dollars spent". The issue of quality in service contracts is three fold:

1. How quality is measured.
2. Relative weighing of quality with other factors.
3. Existing CA directives and guidelines are not consistent with current DoD contracting philosophy regarding contractual vehicles to improve quality. The highest affordable quality cannot be adequately defined in requirements specifications and work statements.

In service contracting, the Government may want to encourage the contractor to exercise considerable discretion and personal judgment in deciding what output characteristics are most appropriate in specific circumstances. In the case of FPAF contracts, the Government is contracting for "best effort" up to the fixed price amount, but will pay a bonus for the contractor to produce the most appropriate output called

for by circumstances. With more than 47,000 positions yet to be studied during and after 1988 [Ref. 13:encl. 2] the Government's approach to quality in CAs is pivotal vis-á-vis the stated goals of operational and cost effectiveness. Contracts which contain weighting factors and measuring factors for quality are being advocated by policy makers [Ref. 15]. The existing Navy instruction 4860.7B, however, is silent on the application and use of criteria and contractual vehicles for better quality performance. Evidence clearly indicates that quality has not been high on the agenda in CA service contracting inasmuch as "least cost" has been afforded primacy in source selections [Ref. 8:p. 1].

a. The "Buy-In" Issue

The term "buy-in" is used to refer to contractors who bid a CA contract lower than they can realistically expect the costs of performance to be. Once awarded the contract on low bid, they look for deficiencies in the specifications in order to expand the PWS or modify the contract. This is not difficult to do. In a service contract, with work defined in scope by the Performance Work Statement (PWS), differing interpretations of work specifications evolve out of opposing perspectives of the buyer and seller. For

example, in a design specification, weights and measures can be precise, and less subject to individual discretion than tasks outlined by a PWS. Unless the customer activity has done an exceptional job writing the PWS, there will probably be areas the contractor can interpret in a way which may cause a change in the contract [Ref. 14:pp. 2-4]. Under certain conditions, contractors find it relatively easy to exploit the "buy-in" option if it is part of their business agenda [Ref. 8:p. 11].

The avoidance of the "buy-in" is a consequential collateral issue brought on insofar as the buy-in introduces the specter of potential problems with quality, and the potential for costly adversarial relationships in firm fixed price contracts awarded via sealed bid.

One illustrative example is the case of Technicolor Government Services versus the United States.[7] The case file (on-going) has 253 tabs and approximately 10,000 pages of text and correspondence related to quality performance. The claim resulting from the differing view points on contract performance started at approximately $77,000 and now exceeds that amount as

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[7] N00189-84-C-0211, Armed Services Board of Contract Appeals (ASBCA) #s 31581, 32302, 32344, and 32397: Technicolor Government Services Inc. vs. the U.S.

attorney fees and other related costs to the claimant accumulate. The administrative burden imposed on both parties is costly.

While quality performance has become a priority of program administrators, an ancillary problem on the method of source selection employed in services contracting still exists. Better quality performance may allegedly be obtained with two-step source selection. Two-step is also advocated as an acquisition alternative to abate the buy-in issue [Refs. 8,14,15]. Full fledged source selection has also been discussed as a viable route to ensure that the competitive range of contractors have submitted realistic offers. [Ref. 15]

5. Obtaining an Accurate Picture of Program Savings and Costs

The total cost of creating a market via the A-76 initiative has been higher than originally projected. Annual Navy program savings for the year 1987 are approximately 20% of the $Billion/year savings goal for DoD set in 1984. In a study released in April 1985, GAO did a detailed review of 20 functions contracted-out under A-76 [Ref. 16]. In 100% of the cases reviewed there was a reduction in projected savings. In 79% of the cases reviewed there was a significant change in

required work, resulting in contract cost increases. These were identified as increases mandated mainly by wage rates determined by the Department of Labor under the Services Contract Act.

The original estimated savings for the 20 functions was $14.5 million. Cost increases amounted to $11.8 million, 81% of original estimated savings. Net savings after contract changes was $2.7 million. Had the functions remained in-house, cost increases of equal magnitude are assumed by the GAO study to have occurred. However, the researcher could not determine the basis for this assumption.

Additionally, if contract administration costs had been more than 4% of contract price (as alleged by several sources) [Ref. 3:p. 36][Ref. 11:p. 2], administrative costs for the 20 contracts would be understated. This ostensibly would contribute to a further reduction in the Government's return on investment (ROI) in those 20 contracts.

a. CA Program Costs Framed Around ROI as a Performance Measure

Return on investment (ROI) is an accounting term which, to most people, tells them whether they are receiving their money's worth for something they bought.

More correctly, ROI is a popular approach to incorporating invested capital into a performance measure. ROI as a statistic can be used to compare alternative opportunities. ROI is increased by any action that decreases costs, increases revenues, or decreases invested capital. In the case of the CA program, ROI would be a function of total invested tax dollars divided by total program savings. The difficulty in computing actual ROI for CA would lie in capturing all costs and savings accurately. For example, in the 1985 GAO study mentioned above, the investment in conducting the studies was not identified. The number of affected employees was 2,535. 112 personnel required relocation; 129 were involuntarily separated and paid severance pay; 298 retired and 171 were employed by the contractors.

The costs associated with these personnel actions were not directly allocated to Government cost estimates for the contract conversions discussed in the study. The Naval Audit Service made the observation in December 1986 that the Government "...needs better cost yardsticks for evaluating CAs after a decision has been made. The existing financial systems do not capture costs by CA function." [Ref. 17:p. 7]

b. QA and Other Transactions Costs

Post award transactions costs may include QA, changes in scope, loss of mission capability in disputes or terminations, or any costs associated with deviant contract performance. These "intangible" costs are part of the ten percent contract conversion differential.

The Center for Naval Analysis conducted a detailed study at the Submarine Base, Bangor, Washington to collect QA and related cost data on the Base Operating Support contract. The study used regression analysis techniques on 25 services contracts at Great Lakes Public Works Center, and used historical data from NAS, Memphis in order to compare CA contract experience with OMB guidelines. The agency formulated a cost estimating relationship to forecast QA staffing requirements based on their findings. The summary of findings suggests that OMB staffing standards, which were breached in most of the cases the Center observed, do not reflect custom or practice in the field. The contracts observed were mostly mature and "...may actually reflect a lower level of staffing [for QA] than new CA contracts might initially need" [Ref. 11:p. 2]. The findings suggest that the costs of CA contract administration and QA are consistently higher than OMB guidelines. The study

recommended the use of 6-7% of contractor full time equivalents (FTEs) as a reasonable estimate of QA staffing requirements (not including other contract administration personnel costs). This is one example where cost realism vis-á-vis transactions costs is a shortcoming of OMB commercial activities guidelines.

According to the CNO (OP 443) at the end of FY 1987, total Navy CA program cost was $125.3 million captured from FY 1979 forward. Contract conversion savings from FY 1979 to 1987 total $305.2 million, and MEO savings for in-house and contract performance are $315.3 million. Assuming all of the input data is correct, as of FY 1987, net Navy program payback is $495.2 million for nine years of program performance [Ref. 8]. If unamortized or partially amortized transaction costs, such as those mentioned here, were fully included in CA program analysis, the savings publicized would be smaller.

The fact that CA program savings are achieved is not questioned by this paper. The performance issue is that the exact amount is difficult, if not impossible to quantify, and allegedly smaller than program proponents suggest. The performance challenge which arises is for the Government to use measures of input and

output which espouse cost realism in the CA program to afford a better picture of program costs and benefits.

c. The Future Perspective on Program Savings

The FY 1988 Defense Appropriation Bill contains language which makes future program savings more uncertain. It places the review determination decision for functions not yet studied in the hands of Unit Commanders. It is too early to assess the effect of this new policy in terms of dollar savings or outlays, because the promulgation of Executive Order 12615, PERFORMANCE OF COMMERCIAL ACTIVITIES dated 19 November 1987 establishes new requirements for the study of 47000 additional FTEs. It is oriented toward CA program growth and basically in diametrical opposition to the language of the appropriations bill.

6. Sealed Bid **Fixed Price** Source Selection for Contracts Does Not Fit the CA Decision Model

The CA contracting process does not lend itself well to the application of sealed-bid source selection or the use of firm fixed price arrangements. There are four criteria which are the basis for determining the propriety of a sealed-bid firm fixed price arrangement:

1. Contract specifications are relatively concrete and simple.

2. "Meaningful discussions" with offerors should not be necessary.

3. The buyer can expect more than one bidder.

4. Award can be made on price alone. [Ref. 18:pp. 240,336]

In contracting for an array of base operating services in one contract, these criteria are not all met. The PWS requirements in a large CA contract may be detailed and complex. Although some activities are predictable and straightforward (i.e., simple to specify in a contract), others are not, and those which do not meet those criteria may be better suited for negotiated procurement. "Meaningful discussions" held during negotiated contract competitions offer an opportunity for alleviating problems prior to final bidding and contract award. Issues which might change a contractor's bid are sometimes discovered, and without the opportunity to hold these discussions, the Government and the Contractor are exposed to greater risk of contract performance problems later on.

Contracts awarded on the basis of price alone are the instrument of choice for buying off-the-shelf hardware, where quality is inexpensive to define, and easy to achieve and measure. On the other hand, the cost of CA service contracts awarded on the basis of price

alone have been shown to rise because of inadequacy of the PWS, changes in scope, exigencies, and other reasons [Ref. 16:p. 3]. In its final report called Smarter Contracting for Installation Support Services, the Logistics Management Institute recommended that:

> ...the Assistant Secretary of Defense (A&L) instruct the Military Services to increase use of two alternative contract types and remove the self-imposed restrictions inhibiting their use. [Ref. 14:p. ii]

In practice, the measures of quality and compliance desired by the Government in CA contracts may not be easily incorporated into firm fixed price arrangements, or acquired with assurance via sealed-bid source selection.

7. OMB Standards Basically Preclude Consideration of Alternative Contract Types

The Military Services have created some self-imposed inhibitions with respect to contracting for CAs. These have come about because the Government bid in an A-76 competition is based on one level of performance and the bid for that level is computed using OMB standards regarding allocable and allowable costs. Circular A-76 stipulates that only the fixed portion of any total price be included in cost comparisons. The award fee (or any incentive) is excluded since one party, the Government,

is required to meet only minimum performance standards and the objective is to compare equal performance.

Consideration of alternative contract types has been constrained at Navy CAs insofar as bidding for award fee contracts involves some "gaming" by the parties involved. Consistent with competitive practices, they try to forecast how much incentive they could realistically expect to earn, in turn predicting expected return on investment. No such option is available to the Government in A-76 competitions. Therefore, under current conditions, the flexibility to award other than firm fixed price contracts in CA competitions is limited. This lack of flexibility is structured in the cost comparison process, and there is hesitancy to institute changes toward more flexibility because of differing management perspectives at the policy level [Ref. 19]. For example, GAO's position on contract-type for services contracts contradicts DoD's position. GAO contends that DoD's stated position of moving away from defining requirements in minimally acceptable terms and moving toward a system of acquiring best quality at a fair and reasonable price is:

> "(1) inappropriate for routine, predictable base support services (2) questionable in view of the fact that higher quality....costs more and (3) inconsistent with FAR..." [Ref. 20:p. 28].

In response to GAO's position that firm fixed price contracts remain the vehicle of choice for base services, the Assistant Secretary of Defense (P&L) asserted DoD's position in October 1987, stating:

> *The GAO recommendations* [with respect to base operating services contracts] would force the use of contract types and of contract splitting, which is not justified on the facts....the services must retain flexibility in tailoring [contracts] to fit the unique circumstances of each individual procurement. [Ref. 21]

Interviews conducted among policy makers in the Office of the Assistant Secretary of the Navy for Shipbuilding and Logistics affirm the view that firm fixed price contracts do not offer a full spectrum of ways to get the best value for base services. Further, it seems axiomatic that while working well in some cases, FFP contracts are not efficient vehicles for the acquisition of multi-function "BOS-type" services. Under current guidelines, however, the Government is hesitant to surmount the requirement to compare only fixed price performance in the A-76 process. The researcher was not able to identify any instances where CA cost comparisons in the Navy resulted in the award of FPAF contracts.

D. SUMMARY

The seven performance issues arising from the research emanate from the interface between contracting policies and commercial activities policies. For example, the issue of buying quality for base services touches both areas:

1. defining what level of quality is to be utilized in cost comparisons (minimal or more than minimal) is a matter best addressed by A-76 policy.

2. the vehicle(s) used to buy that level of quality are defined in contracting policy (FAR, DoD FAR supplement and associated directives).

While this is by no means the only example of policy interface around A-76, it serves to focus attention to the seven issues discussed in terms of the original question vis-á-vis FPAF contracts. The propriety of FPAF contracts in the CA program is directly concerned with the administrative influences of A-76 and those of Navy contracting directives; both of which may require modification in order to facilitate the award of FPAF contracts in the cost-comparison process.

Further, the seven performance problem areas may not be dealt with exclusively by the use of alternative contract types, however, the issues form the baseline for discussion regarding the attributes of FPAF contracts for base services.

The following chapter centers on the Fixed Price Award Fee contract. It explores the attributes and applicability of FPAF for CA-type service contracting.

III. THE FIXED PRICE AWARD FEE CONTRACT

A. COMPONENT PARTS

The Fixed Price Award Fee contract is considered a hybrid type contract because the contract utilizes two component parts, a Fixed Price component and an Award Fee component. These components differ substantially from the firm fixed price arrangement in that contractor incentives for performance are present and risk apportionment is shifted somewhat as shall be described.

B. FPAF CONTRAST TO FIRM FIXED PRICE

In a firm fixed price contract, all cost risk is borne by the contractor. S/he provides a specific level of service for a specific period of time for a specific price. The costs to the Government are fixed. Firm fixed price bids are preferred by GAO and DoD when the right conditions are present. For cost comparison, the bottom line can be readily compared with the Government in-house estimate.

The FFP gives the contractor considerable incentive to control costs, since this would increase his profit. However, this incentive tends to be a disadvantage to the Government because contractors may most readily control

costs by sacrificing quality. Decreases in quality are easier to detect in contracts for hardware than in services contracts [Ref. 14:pp. 2-4]. Also, deviants from specified contract performance are difficult to deal with because they may involve changes to the specified level of service and hence, changes to the contract. In the case of FFP contracts, the contractor has a right to seek consideration for any change in the scope of performance, and because cost risk and cost control are entirely his responsibility, s/he is expected to use that right. Contracting literature generally states that FFP contracts work well for simple functions which are easily defined and minimally subject to change.

C. PRESERVING FFP ADVANTAGES AND ADDING INCENTIVE FEATURES

The Fixed Price Award Fee (FPAF) contract is one in which the contractor proposes to perform a specific level of service for a specified length of time at a price which includes all costs and fee. The "award fee" is a bonus for higher than "standard" levels of performance. If the contractor expends no effort to meet those higher levels, it incurs no risk and earns no fee. If the contractor expends effort and resources to achieve a higher performance level, a part of the Award Fee is

earned. This incentive approach should not force the contractor to undertake high risk, but provides motivation to undertake some risk in order to get a better return on investment. The maximum fee percentage is specified in the contract, and the amount received by the contractor is determined unilaterally by the Government on assessments of performance periodically over the term of the contract. It has many of the advantages the FFP has, but is considered superior by those interviewed for several reasons:

1. It is equivalent to the Government offering a split profit to the contractor. One part is fixed and non-negotiable; provided as a residual over the dollar cost of performance. The contractor still has incentive to control costs. The other part is compensation for quality assurance by the seller.

2. The award fee should provide better contract performance by defining a means of encouraging a more responsive attitude on the part of the contractor. The promise of an award fee not only directs the contractor's outlook toward end results, but may provide a positive psychic advantage which mitigates part of the adversarial element in the Government/contractor relationship. The periodic award fee "report card" lets both sides know whether the quality and level of service are satisfactory. Hence, cooperation between Government and contractor may improve, and quality may become an important part of the contractor's agenda, because he is allowed to exercise discretionary authority over the level of "bonus" he wishes to earn via the award fee.

In the FPAF arrangement, the use of the award fee is

attractive to the Government because it accomplishes two things.

1. It acts as an incentive for quality performance.

2. The amount of fee awarded is unilaterally determined by the Government and is not subject to the disputes clause. In other words it cannot be protested by a contractor through normal contractual channels such as the Armed Services Board of Contract Appeals. The contractor essentially needs a very compelling reason to contest the amount of the award fee.

In the FPAF contract, the two components are symbionic. The fixed price component is designed to offer the Government predictability, low cost risk, and decreased levels of planning and budgeting scrutiny. The award fee component is designed to enhance communication between the Government and the contractor and stimulate contractor investment in labor and capital for better results.

D. MECHANICS OF THE FPAF CONTRACT

The Award Fee is a specific sum of money, portions of which a contractor may receive for performance that exceeds the specified levels in the contract. A typical award fee arrangement involves the earning of points by the contractor for performance. Distribution of percentage weights in performance categories depends on the type service being performed. The following criteria

were common to a majority of the FPAF contracts examined for this thesis:

FACTOR	MAX POINTS
Quality of work	30
Response to emergency/urgent calls	20
Timely work completion	15
Prompt and formatted submittals	20
Cooperation and integrity	10
Admin controls and sub-cont. mgt.	5
TOTAL	100

The amount of the Award Fee is fixed and fully funded at the time of contract award, and the portion to be disbursed is determined periodically via contract surveillance. It is based on points assigned (as above) as percentages of the periodic amount. For example, 80 points might be equivalent to 5% of the award fee, 81 points would yield 10% etc. The amount not awarded in a given review period may not be carried forward.

The contractor's performance is evaluated daily by Government employees appointed as Performance Monitors. They report to a Quality Assurance Evaluator (QAE). The QAE meets weekly with the contractor to offer feedback on performance. QAE personnel also recommend a point total for contractor performance which is evaluated by an Activity Award Fee Committee, chaired usually by the Contracting Officer with all interested parties present, including one contractor representative. The Committee forwards its recommendation to the Award Fee

Determination Official (usually a level one contracting officer at the next level in the chain of command). The Award Fee Determination Official then approves or disapproves the fee recommendation, prepares the paperwork for approval of the fee, and the Contractor is notified that s/he may invoice the Government for the amount of the Fee approved. There is also an Award Fee Determination Board involved in the process, but very recently, that board was discontinued on the west coast (Western Division Naval Facilities Engineering Command) because it was performing a redundant function [Ref. 22].

The Award Fee contract requires more post-award management than FFP contracts. After acquiring approval for use of FPAF, the requesting activity must develop an Award Fee Determination Plan, Quality Assurance Plan, and Quality Assurance Staffing Plan. Selection of the performance evaluation criteria are developed in concert with the customer activity, and from this effort an award fee plan is developed.[8] Resources are mobilized to ensure a capable trained staff is employed for quality surveillance, and the standing committee is appointed to assess the contractor's performance on a regular basis,

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[8]A sample award fee plan is provided in the appendix.

monitor performance, and liaison with a fee determination official [Ref. 23].

In summary, the FPAF contractual process runs through approximately 13 milestones and generally takes more than four months to complete. Class deviations from the FAR granting the use of Award Fee contracts without prior approval for higher authority are not yet in place [Ref. 23]. The requesting activity must develop a memorandum of Determination and Findings (D&F) in accordance with FAR 16.403c which must be forwarded and approved prior to use of an FPAF contract. This process averages 30 days within NAVFAC. The added effort involved in award and administration of FPAF CA contracts vis a vis end results is viewed favorably by personnel interviewed, with one exception which will be discussed in Chapter IV.

IV. SYNOPSIS OF PRIMARY OBSERVATIONS AND CASE DATA

A. APPROACH TO DATA PRESENTATION

In order to offer perspective to the different attributes of FPAF contracts and their suitability for commercial activities, case data was gathered for four FPAF contracts. The objective of the case data presentation is to synopsize real-world problems, benefits, and collateral issues arising from the use of FPAF contracts for services. All are under organizational cognizance of Naval Facilities Engineering Command. Each case has features which allow evaluation of different variables present in the award fee contract, and different perspectives from base-level personnel involved. Each is presented in the following format:

1. Contract management
2. Contract performance
3. The Award Fee determination plan
   a. QA staffing plan
   b. QA plan and schedule of deductions
4. Observed results

There may not be clear lines of demarkation with respect to the specific broad category under which an issue is presented, as it is likely that one issue or benefit may

have an impact in several areas, but it is intended that the primary observations be compartmented to allow the reader a clearer frame of reference. Case data may be augmented by commentary or analysis where appropriate.

B. CASE DATA

1. Base Operating Services Contract, NAS Whiting Field, Florida

a. Contract Management

Before beginning specific discussion of contract management, the context and use of the term will be outlined to form a baseline for this category. Contract management encompasses all relationships between the contractor and the Government which grow out of contract performance. Issues which arise out of contract management vary from case to case, and include such things as organization, objectives, contract complexity, and the level of interaction between customer and contractor.

At Whiting Field, the FPAF contract is for performance of base operating services (hereinafter referred to as BOS). Source selection was accomplished via the two-step method. It has a fixed price of $3.5 million per year plus an Award Fee of $300,000 per year ($75,000 per quarter). The FPAF contract did not arise

from initial Government/Contractor CA competition, (although all activities under the contract are CAs) and it was awarded as a follow-on to a Fixed Price Incentive Fee contract which ran to term and was not renewed.

The Fee Determining Official (FDO) for this contract is the Commanding Officer, Southern Division, Naval Facilities Engineering Command in Charleston, South Carolina. The local award fee evaluation committee submits recommendations concerning the amount of quarterly award fee to Southern division, NAVFAC, where the Award Fee Board makes final a recommendation the amount of fee to be approved by the FDO.

b. Contract Performance

The first year of performance was FY 1985 with four option years. The command is satisfied with the contractor, and renewal options in the basic contract have been exercised since the base year [Ref. 24]. The primary method of verifying contract performance is random sampling supported by validated customer complaints. The random sampling is accomplished by selecting numbered items from the contractor's work schedule. For example, a number is selected from a table of random numbers. The item number on the work schedule which corresponds to the random number selected will be

evaluated. Approximately 20% of all service calls are checked for compliance with contract requirements. QA work-sheets are filled out by Quality Assurance Evaluators (QAEs).

Collaterally, the Naval Audit Service observed that the Government relies too heavily on customer complaints to evaluate contractor performance, and that customers may not be aware of all PWS requirements. [Ref. 17:p. 8] In this and other cases, respondents tended to counter by pointing out that more comprehensive (and expensive) QA plans and bigger QA staffs should not be necessary with FPAF contracts than with FFP insofar as the contractor has discretionary authority to invest in resources for improved performance and can expect a return on that investment via award fee. In other words, customer satisfaction may be a useful money saving barometer of contractor performance, especially where evaluation of the award fee is partly in the hands of the customer command.

At Whiting Field, the level of performance desired by the command is outlined in a written QA plan which is keyed to performance-oriented specifications. Performance is measured by the end results, rather than by the methods used to generate those results. There are

eight functional areas covered by the contract with 140 separate rated performance items.

Using the given criteria, contractor performance has been evaluated as consistently above standard. Since contract award, the contractor has earned an average award fee approximately 95% of the AF pool [Ref. 25].

c. Award Fee Determination Plan

The payment of the award fee in this case is contingent on compliance levels in each annex of the contract rated at 80 points or above. The point scheme and computations are as follows:

Element	Max Points
1. Quality of work	30
2. Contractor response to emergency, urgent, and routine service calls	20
3. Timely completion of work	15
4. Required reports [format,timely]	5
5. Admin and Cost Control of subcontracted work.	20
6. Cooperation and Ingenuity	10
Total	100

A total performance score below 80 results in no percentage of the fee awarded for a particular review period. The score in each category is tabulated 0-100, then that score is multiplied by the weights (percentage points) and the sum of those products results in the

weighted total performance score. The schedule for the award fee reads as follows:

Numerical Points	Percentage of Earned Award Fee
79 and below	0%
80	5%
81	10%
82	15%
83	20%
84	25%
85	30%
86	35%
87	40%
88	45%
89	50%
90	60%
91	70%
92	80%
93	90%
94	95%
95 and above	100%

A specific QA staffing plan is not included in the contract. Rather, estimated man-hours of QA effort are listed in section B of the QA Guide and in each annex of the QA plan. The contract is relatively mature, however one contract administrator feels that there are inadequate personnel resources to properly staff the administrative and QA requirements set forth in the Award Fee arrangement. [Ref. 26] Records regarding the differences in QA effort between the former FPIF contract and the Award Fee contract are not available in

sufficient detail for comparison of QA costs under the different circumstances.

d. Observed Results

It is felt that the award fee arrangement at Whiting Field is superior to the fixed price incentive fee arrangement used in the former BOS contract because he Government is receiving superior performance and has a positive relationship with the contractor. Further, that a by-product of the award fee is enhanced communication between Government and the contractor [Ref. 24].

The contractor's Project Manager at Whiting Field feels that the award fee arrangement is superior to firm fixed price contracts for the Government. He acknowledges that earning 95-100% of the award fee is the norm for his company and that investing in additional labor and capital is an option pursued regularly and aggressively to ensure the performance needed to earn maximum award fee. He further states that the contractor bid the award fee as profit, using a zero-base fixed price. He also and shares 25% of the award fee with his employees. The sharing plan is regarded as a vehicle to achieve less supervision and more quality performance [Ref. 27]. It should be noted that In addition to the BOS contract at Whiting Field, the contractor has CA type

services contracts at Cecil Field, Florida; Whidbey Island, Washington; Naval Postgraduate School, Monterey, California; and Sub Base Bangor, Washington.

The following summarizes the observations concerning the FPAF contract made by the Facilities Support Contract Office (FSCO) and by the contractor:

FSCO Observations

1. Inconsistencies in statement of work.
2. Inability of contractor to do Davis-Bacon type work over $2,000 with in-house forces.[9]
3. Lack of a detailed schedule of deductions.
4. Lack of resources for additional QAE and administrative effort related to award fee contract.
5. Inadequate inventory of equipment included in contract.
6. Lack of clear definition on what office would be responsible for production management of the contract.

Contractor Observations

1. Government should spend more time on contract preparation.
2. $2000 limit on Davis Bacon indefinite quantity work is difficult to comply with and still get the job done.

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[9]Davis Bacon work is named after the Davis Bacon Act. It is construction and "trades-type" work valued at over $2000.

3. There are no Navy-wide standards for BOS contracts with respect to the drafting of specifications. Different commands write different specifications for the same type work.

4. Navy public works centers do not do business the same. It hinders the contractor's ability to be responsive.

5. The award fee takes too long to process from review through approval and payment to the contractor.

2. Custodial Services Contract, Naval Aviation Depot, Alameda, California

a. Contract Management

This FPAF contract is currently in the solicitation phase. While contractor observations are not available, the circumstances which led to selection of FPAF for performance of the function illustrate the application of a FPAF contract.

b. Historical Perspective

The contract is being solicited to replace a firm fixed price contract with an 8A firm (Small Business). The problem requiring most management attention has been customer complaints of non-performance or sub-standard performance [Ref. 28]. The present 8A contract (awarded to a small disadvantaged businesses on a sole-source basis) was preceded by a contract which ended via termination for default for

similar reasons. It is felt that the award fee arrangement will lead to better Government/contractor relations and improved performance [Ref. 28]. Contract administration for the Aviation Depot is accomplished by the Public Works Center located at the Army Depot, Oakland, California. The base contract period is for 12 months commencing September 1988 with four option years. If any of the options for extension is exercised by the Navy, a new Award Fee Plan must be approved by Western Division, NAVFAC. Each award fee period is three months. The existing contract is priced at approximately $1.1 million. The estimated cost of the new contract is $1 million per year, and the award fee pool is $70,000 per year. It is the first FPAF contract handled by PWC San Francisco. The Contract Management Officer, LT R.W. Henderson, contends there will be a marked improvement in quality and service from the use of the FPAF contract. He points out that three full-time QAEs were required to monitor to the FFP contract because there were so many complaints. He could not adequately document them with the recommended staffing of two QAEs. If 2 QAEs can perform surveillance adequately, as indicated by the QA Staffing Plan for the FPAF contract, the command allegedly can save the cost of one man-year of effort

with the new contract. Summarily, the command expects to get better performance, save one man-year of QA costs, and spend approximately the same amount of money for the FPAF contract as for the existing firm fixed price contract.

c. Contract Performance

No evidence is available on contract performance for this FPAF contract, however, the FPAF contract solicitation was assembled with performance specifications vice the more traditional requirements specifications. A brief explanation of the differences between these two types of specifications follows:

> Performance specifications are expressed in terms of functions to be performed, i.e., "The grass shall be kept green and cut to present a well groomed appearance". By contrast, requirements specifications define what is to be done in terms of physical characteristics, i.e. what materials to use, what processes or methods to use, and other specific measurable items. The use of detailed requirements specifications, while offering the advantage of imposing specific measurable obligations on the contractor, also limit the contractor because s/he is required to produce only that which is specified. Omissions can be costly, and the contractor may not be able to exercise the discretionary authority to produce operational effectiveness. For this reason, the performance outcome, defined as simply as practical, is advocated by the Assistant Secretary of the Navy (S&L) because the Government is concerned primarily with the end-product in services contracting [Ref. 7].

Incorporating the use of performance specifications into the FPAF contract has two stated goals:

1. The performance specifications streamline the contract requirements.

2. The award fee ostensibly facilitates cooperative interpretation of the specifications by the contractor and encourages greater emphasis on the end results as opposed to the means to achieve them. [Ref. 28]

d. Award Fee Determination Plan

The Fee Determining Official is the Vice Commander, Western Division, NAVFAC. The Executive Officer Navy Public Works Center, San Francisco, is the chairman of the Award Fee Evaluation Committee. The voting members are the Head, North Services Contracts Branch, at WESTNAVFACENGCOM, the engineering field detachment; XO, Naval Aviation Depot, and Production Engineering Head, NAVAVDEP. The Activity Award Fee Evaluation Committee is chaired by the Resident Officer in-charge of Construction, PWC San Francisco. Its members include supervisory QAEs and contract specialists. The evaluation criteria are as follows:

Element	Weight
1. Quality of Work	40%
2. General & Admin. (lump sum)	25%
3. Timely Completion of Work	25%
4. Cooperation and Attitude	10%
Total	100%

The Award Fee is paid as a lump sum after each quarterly review, and unearned portions may not be carried forward. The computations for the fee are the same as outlined in the previous case, and the "zero fee threshold" for each criteria is 80% as illustrated by the following:

Overall Evaluation Score	Percentage of Earned Award Fee
79 and below	0%
80	5%
81	10%
82	15%
83	20%
84	25%
85	30%
86	35%
87	40%
88	45%
89	50%
90	60%
91	70%
92	80%
93	90%
94	95%
95 and above	100%

The local Award Fee Determination Board may, at its discretion, allow the contractor to make verbal presentation of his performance.

e. QA Staffing and QA Plan

A detailed Quality Assurance Staffing Plan is included in the contract. It outlines the type of surveillance for inspections and quality control, the general tasks QA personnel will perform, and the amount

of time estimated for each task in the plan. The QA Staffing Plan provides an reliable picture of the anticipated QA costs to the Government. This detail-level plan is not present in the Whiting Field FPAF contract. In contrast, the FPAF contract at Whiting Field has estimates of time required for QA in separate annexes of the QA plan. It does not, however, summarize the total estimated cost of the Government's QA effort.

In requesting approval for the FPAF contract solicitation, PWC San Francisco indicated that the command intended to incorporate extrapolated deductions in the contract. Extrapolated deductions are deductions taken for an entire group of contract line-items based on sample observations. For example, if 14 wastebaskets are to be emptied and the QAE, based on random sampling, observes three which were not emptied, the schedule of extrapolated deductions may allow a dollar penalty for all 14 of them. This is equivalent to statistical process control methods used in hardware production. The Contract Management Officer at PWC San Francisco feels that extrapolated deductions offer two benefits. First, the use of random sampling streamlines part of the QA effort when there is a large amount of work similar in nature. Second, extrapolated deductions offer fewer

ambiguities than a schedule of generic deductions, and tend to place most of the QA burden on the contractor, where it belongs. [Ref. 28]

Utilizing a schedule of extrapolated deductions, three "ranges" of performance may be identified resulting in three levels of remuneration. One level would be payment of fixed price only for work performed at "standard" quality. No part of the award fee paid. Another level would be payment below fixed price, using the schedule of extrapolated deductions to reduce payment amount for sub-standard quality, and the third level would be payment of the award fee (or part of it) for work performed above standard. Some deductions may be taken utilizing the SOED in selected areas while portions of the award fee may be paid for above standard performance in other areas. The computations are performed separately, but the QAE personnel are responsible for recommending dollar figures in both areas.

f. Observed Results

There is no history of performance on which to comment. The contract was selected for this thesis because it incorporates all of the elements recommended by NAVFAC for a successful FPAF contract: Award Fee

Determination Plan, QA Plan, QA Staffing Plan, and Schedule of Deductions. Approval for the use of extrapolated deductions, while requested and favored by PWC San Francisco, was not granted by NAVFAC [Ref. 29]. A schedule of specific deductions was drafted for use in the place of extrapolated deductions. Summarily, using this array of plans is expected to collectively help define and abate contract transactions costs. The plans allegedly add clarity to cost analysis by partitioning and defining areas of specific concern in advance of contract award. While conclusive evidence as to their effectiveness is not available in this case, it is felt that this contract may establish a benchmark upon which to base the value of other FPAF contracts at PWC San Francisco.

3. Grounds Maintenance Contract, Naval Air Station, North Island Naval Amphibious Base, California

a. Contract Management

The base contract is for 12 months with two option years. It is the first FPAF contract awarded in the NAVFAC community to an 8A firm.[19] The fixed price portion is $817,329. The award fee pool is $32,013. The

[19]A firm operating under the umbrella of the Small Business Administration is an "8A" firm.

term to which the award fee applies is nine months. The award fee was added subsequent to the 12 month contract award, so the quarterly amount is $10,671 for nine months of performance. The strategy for application of the award fee after contract award in this case is the reason it is synopsized in this thesis.

Since there was essentially no competition for award of the contract, market forces which might have driven down bid prices were not present. Additionally, historical experience at the activity had been positive with 8A contractors, and they were expected to be more responsive to award fee arrangements accordingly. The intent of the command was to negotiate a two part profit for the contractor to assure desired performance. Originally, cost plus a negotiated profit of 5.3% represented the fixed price. The award fee was calculated based on the difference between the negotiated level of profit and maximum allowable profit (10%) over the same cost base. [Ref. 30] The combined effect of the award fee and the fixed profit margin gives the Government unilateral control of about 43.6% of the contractor's total potential profit.

In addition to quality incentives, the award fee aspect results in extended dialogue between the

Government and the contractor by virtue of the standing committees' performance reviews, and weekly QAE performance reviews. The Facilities Support Contract Manager points out that using the FPAF contract, Government is more extensively engaged in contract performance, and that; for 8A contractors this engagement may be more helpful than firm fixed price arrangements where Government contract management is typically less involved [Ref. 30].

The president of the company died just after contract award. This has contributed to many start-up problems. The consensus of contracting officials and customer officials is that better performance has resulted from the use of the award fee add-on feature [Ref. 30]. A contract specialist at the activity expresses the contrary view that the amount of contract administration and QA effort added to the workload for this contract is not justified by the size of the award fee [Ref. 31]. In other words, the added value in quality performance may cost more to obtain (vis-á-vis administrative and QA costs) than the cost of award fee pool. Following this observation, analysis of available data reveals the following:

If QA staffing was computed at rates recommended by the Center for Naval Analysis [Ref. 11:p. A-2], approximately 1.48 FTEs would be needed for QA. Again based on the CNA figures, at $33,000 per FTE, the implied QA effort for this contract would cost the Government $48,840; about 152.6% more than the award fee pool.

Comparing the $32,013.00 award fee pool with the implied QA costs of $48,840 may provide a useful decision variable for FPAF contracts vis-á-vis return on investment. While it is known that the award fee arrangement requires more QA and administrative effort than if the contract were firm fixed price, the incremental cost of QA and administration for the FPAF contract over the FFP contract is not known. If the incremental costs of the FPAF contract could be segregated, a cost-benefit analysis (CBA) would be appropriate to ascertain the value gained (or lost) investing in this FPAF arrangement. The CBA approach for FPAF contracts is a collateral issue in the contract type selection process and will be briefly addressed in Chapter V.

b. Contract Performance

During the most recent three review periods (from 1987 and through March 1988) the contractor has been awarded portions of the award fee in the amounts of $3,000; $-0-; and $4,200 respectively.

The responsiveness of the contractor in this case is attributed to the use of the award fee. Additionally, the added dialogue established by the award fee is considered timely and useful. The small firm's management allegedly learns more about its performance via frequent feedback, contributing to real-time problem solutions and improved results.

c. Award Fee Determination Plan

The Fee Determining Official (FDO) is the Vice Commander, Western Division, NAVFAC. The role of the FDO is to approve or disapprove the recommendations of the award fee committee and the award fee board. It should be noted that the FDO is an individual in the chain of command with responsibility for the procurement process. As such, the decision of the FDO regarding the size of the award fee is equivalent to a contracting officer's final decision, and is not subject to the disputes clause in the contract. In this contract, the Activity Award Fee Evaluation Committee has five members,

chaired by the San Diego Contracting Officer, Naval Public Works Center. Criteria elements for the award fee include:

ELEMENT	WEIGHT[X]	SCORE=POINTS
Quality of Work	55	
Timely Completion of Work	20	
Technical Management	15	
Quality Control	10	
Total	100	

CONTRACTOR'S OVERALL EVALUATION======>_____

Minimum award fee is 5% for an evaluation score of 80, and the award fee threshold is 79 points, below which no fee is paid. Five percent is added to the award fee for every point above 80 in the evaluation score, as in previously discussed cases. It is interesting to note that while a performance score of more than 80 warrants payment of a portion of the award fee, the Award Fee Determination Plan indicates that performance score below 70 "...may be the basis for the Officer in Charge to initiate termination for default action."[11] This language implies that performance rated between 70 and 79 points is considered minimally compliant with specifications. It also implies that the performance

[11]quoted from page 5 of Attachment D in contract N62474-86-C-C196

evaluation used in determining the size of the award fee may also be the basis for other contract-related actions by the Government. The criteria used for award fee performance evaluation may be applied more broadly in managing the contract due to the language of the Award Fee Plan in this case.

d. Observed Results

The award fee arrangement was applied to the contract post-award for the unique reasons cited. The intended effect appears to have been accomplished for two reasons:

1. There is more dialogue between contractor and Government than would occur with a firm fixed price contract. The weekly performance review meetings, which would be held in any event, are augmented by award fee meetings. The additional contact is seen as helpful by the ACO, both for the Government and for the 8A firm [Ref. 30].

2. Based on award fee distributions of $7,200 through three review periods, the Government is receiving the better performance it desires at a cost which is 0.9% above the fixed price of the contract through three quarterly reviews. If 100% of the award fee pool were awarded for a fourth quarter, the total award fee invested for one year would represent 2.2% added to the fixed price.

4. Base Operating Services Contract, Naval Submarine Base, Bangor, Bremerton, Washington

a. Contract Management

Base contract period is twelve months. The contract has four option years. The estimated cost of

performing the contract is $39,000,000 and the award fee pool is $2,500,000 ($625,000 per review period). There is a "generic" schedule of deductions without extrapolated elements. The Fee Determining Official is the Commander, Western Division, Naval Facilities Engineering Command. The Chairman of the Performance Evaluation Board is Commanding Officer, NAVSUBASE, Bangor. Voting members are the Public Works Officer, Senior Officer in the Engineering Field Detachment, Two Commanding Officers from any of the major tenant organizations, and the Senior QA Specialist from SUBASE is the recorder.

The contract is the largest Base Services contract within NAVFAC. A noteworthy feature of this case is that the Contracting Department, which is chiefly responsible for contract administration, is part of an over-all matrix organization at Bangor. The effect of this organizational architecture is that QAEs and contract monitors are not dedicated full time resources. They perform QA and related functions on an as-required basis and are "shared" by project managers to perform QA and monitoring on all of the contracts for the base, rather than being assigned to a single contract. The significance of this observation is that it is not

possible to derive QA costs specific to one contract. The organizational alignment has an impact on the QA Staffing Plan inasmuch as the Plan contains merely an approximation of QA labor costs for the BOS contract. At the time of this writing, a post-award audit is being performed by the Naval Audit Service.[12] That agency has determined that cost estimates for contract administration should be identified by individual contract at Bangor. The results of their dialogue with officials at Bangor are not final at this time.

The contract was awarded using complete source selection. There were seven bidders. Contract type was changed to FPAF during the solicitation process after approximately ten years of performance using a fixed price incentive firm (FPIF) arrangement with another contractor.

b. Contract Performance

The solicitation for the contract was assembled with the intent to distribute the award fee for above average performance. This expectation was

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[12]The post award audit examines contractor compliance with cost accounting standards, reviewing the contractor's compensation structure, the accuracy and reasonableness of contractor's cost representations, and other necessary audit functions. Results of this audit may be helpful for further research regarding FPAF contracts.

emphasized in the solicitation. The character of FPAF performance evaluation by the Government became pivotal early in the history of this contract, when, at the first Award Fee Board meeting, the contractor's self-evaluation was very high and the Government evaluation of the contractor was "average". The Board concluded that an award of no fee was warranted.

There were two observations noted by the ACO regarding this disparity in observed performance. First, the format used by the contractor and that used by the Government for presentation to the AF Board were different. This led to miscommunication at the board meeting; e.g., "I don't recall your having said that we were deficient in this area. What you said was, "'we were improving....'" The recommended solution was that a common format should have been used by both parties presenting their performance evaluations to the Board. This in fact has been implemented. [Ref. 32]

Second, communication up and down the chain of command regarding contractor performance was not viewed as effective during the first review period. "Taking the pain to communicate what the Government wants..." to the contractor and ensuring adequate

documentation of that communication were steps seen as lacking at that time [Ref. 32].

Insofar as no award fee was approved for the first quarter of performance, the contractor, United Airline Services Corporation, allegedly earned no profit. The company had bid the contract as if it were cost reimbursable. In other words, United Airlines bid a "zero base fee" [Ref. 33]. The company proposed to make its profit on the award fee provisions of the contract. The company contends that competition forced them to take that approach, and, "...most other contractors would do the same." [Ref. 33].

The contractor's response to the inherent cost-risk in its strategy was:

> I think all contractors try to measure risk, but it is almost impossible on a fixed-price service-type contract, because the PWS in most cases is not defined in sufficient detail to allow for numerical measuring risk. What we depend on is the "reasonableness" of our customer evaluators. This leads to all types of conflicts and compromises in the managing of service-type contracts sometimes [Ref. 33].

c. Award Fee Determination Plan

The title given to performance monitors in the matrix organization at Bangor is Technical Representative of the Commanding Officer (TRCO). Most TRCOs perform this duty on a collateral basis. The QA

organization has 18 TRCOs, 18 assistant TRCOs, and 36 contract monitors. QA reports from the TRCOs are forwarded to the Assistant Officer in Charge (Contracts Department) for collation and analysis. There are four evaluation criteria in the award fee plan:

ELEMENT	WEIGHT
1) Overall Project Management	15
-cooperation and responsiveness -effectiveness in problem solving including degree of reliance on government	
2) Administration	20
-Government property control requirements -Subcontract adminstration -Compliance with regulations -Timeliness, accuracy, completeness of reports, records, and submittals	
3) Contractor's Quality Control	30
-Overall quality of work -Inspection and record keeping -Accurate deductions on invoices -Timely resolution of deficiencies	
4) Work Control	35
-Response to emergency, routine service calls -Response to indefinite Quantity delivery orders -Effective scheduling and accomplishment of remaining contract work	
TOTAL	100

The minimum performance score for the contractor to attain a portion of the award fee is 77. The fee is computed in accordance with the following formula:

Max. award fee payable or the period	X	Contractor's overall eval. score minus 76
24		

d. Observed Results

The contractor and the Contracting Officer maintain that there has been considerable misunderstanding in the discharge of the contract. The contractor feels that issues which caused those misunderstandings were administrative in nature, and therefore did not affect the final outcome in terms of performance. Based on that contention, he asserts that a portion of the award fee was earned by his company during the first review period, and that the Government's evaluation was not accurate. He notes that while the learning curve in the process caused loss of the award fee in the first review period, his efforts and the efforts of his company remain directed toward customer satisfaction. He further maintains that improvement in dialogue is a key factor in his ability to respond to his customer and that this is in fact happening. [Ref. 34]

The contractor's operations director noted that the company bid on the contract despite reservations about the contract type. He voices the view that fixed price contracts "of any type" are not appropriate for service-type contracts because:

1. Generally PWS are not well defined
2. [contractor] has less flexibility
3. Costs more (more risk to contractor)
4. Not as responsive to local needs as most bases need [Ref. 33]

The Administrative Contracting Officer (ACO), offering his perspective, contends that FPAF contracts, if written and structured properly, are not more difficult to administer than firm fixed price contracts, either in this or other cases. He qualifies this observation saying that OMB standards for QA and contract administration seem understated, and that inadequate manpower could create problems administering this large contract. He maintains that the method for incentivizing contractor performance with FPAF contracts affords the Government more flexibility at reasonable cost, and that the use of FPAF contracts is appropriate for base services [Ref. 32]. If Bangor awards the contractor 100% of the award fee pool for the remaining three quarters of performance in FY88, the cost of the award fee will total

4.8% of the fixed price. Based on the pronouncement made by the contractor regarding zero-base fixed price, this would equate to 4.8% profit before taxes. Two observations are offered here:

1. The actual cost of the award fee, based on evaluation of performance, is typically lower than the funded amount. While this is not particularly revealing, it demonstrates the Government's intent to set funds aside to pay for excellent quality, but not distribute those funds unless results warrant.

2. The forces of competition have (allegedly) placed the Government at advantage in this FPAF arrangement through the process of one or more competitors "gaming" the award fee during contract competition. In other words, furnishing the Government more predilection over profit because the award fee was bid as profit.

C. SUMMARY

The observations derived from the four cases described in this chapter suggest that the Government is getting a positive return on investment for FPAF contracts, and that they are superior to firm fixed price contracts for base services.

The importance of verifying the **amount** by which the return on investment has improved by means of the use of FPAF contracts is made manifest insofar as OMB, through the budgetary process, has taken significant advance budget reductions in anticipation of CA cost comparison completions [Ref. 35]. The increased need to identify

new areas for CA cost comparisons (and hence a clear picture of "best" contract options) has hence been made more compelling for Base Commanders as the reductions will be passed on to them eventually.

While the FY 88 Defense Authorization bill gives Commanders the option to make review determinations for cost comparisons, it would appear on evidence that the Executive Branch (OMB) has limited their options in this regard.

As illustrated by the cases, there is divergence between OMB standards for calculating certain transactions costs (such as QA) and observed transactions costs in the field. Absent some of those conflicts, the cost/benefit picture of FPAF contracts would be clearer. Chapter V expands on the observed findings concerning the FPAF issue in terms of independent conclusions and recommendations.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The primary purpose of this thesis has been to investigate the suitability of fixed price award fee contracts for commercial activities. This was accomplished through an extensive search of literature, interviews with personnel involved at operating level and policy level, and a study of FPAF contracts in use within Naval Facilities Engineering Command. Based on the information gathered, the researcher proposes the following CA program changes.

B. RECOMMENDATIONS

1. Introduce More Cost Realism in the CA Process.

The Government seems to have confused the meanings of the words "value" and "cost". While it may be sufficient to argue that "value" is not always expressed in dollar terms, the value of the CA program is being judged by legislators and OMB solely in terms of dollar outlays saved. The researcher concludes that these savings are overstated.

Cost realism is the best vehicle to form a baseline for CA program evaluation. In order to assess

the value of the CA program in dollar terms, all costs incurred by the Government in creating a private market for public goods must be included. If this were the case, return on investment may be reasonably estimated. Evidence points out that this is not possible because Circular A-76 and its subordinate Cost Comparison Handbook define specific methods for computing costs which are not comprehensive enough. The procedures for determining contract administration costs, quality assurance costs, permanent change of station costs, inventory costs, and fringe benefits should be reviewed.

Recently, U.S. Congressmen Ackerman and Ford asked the GAO to examine a contract awarded for base operating services at Whidbey Island, Washington. Their request was in response to allegations from the American Federation of Government Employees (AFGE) that the cost comparison process was biased in favor of the contractor [Ref. 36]. GAO found that the cost estimating procedures used were not inconsistent with OMB standards. [Ref. 36:p. 1] The concerns of the AFGE are nonetheless legitimate insofar as there is evidence to show that OMB standards may be inaccurate in selected categories, particularly contract administration costs, contract

conversion costs, permanent change of station costs, and quality assurance costs.

2. Consider Changes to A-76 and Implementing Directives Which Would Allow Greater Flexibility for Commanders to Consider Alternative Contract Types in the Cost-Comparison Process.

GAO stated that a bias may exist in favor of a contractor in competition with the Government for an award fee contract because the award fee pool is not allowed to be included in the cost comparison. For this reason, NAVFAC has stated that FPAF contracts are not appropriate for CAs undergoing cost-comparison. If the activity under study is to be contracted-out, all of the business tools available for negotiating a cost effective contract acquisition should be at its disposal. These business tools include alternative contract types.

Regarding GAOs observations on possible inequities in the use of FPAF contracts for CAs, OMB rules regarding allocable and allowable costs and cost elements (such as award fee pools) in the cost comparison process should be reviewed. It may be possible to compare performance by considering the award fee pool in the contractor's bid, or by developing an equitable way to compare Government and contractor performance with an

award fee pool added to both bids. For example, the Government does have some discretionary authority to produce "awards" for its employees. Quality step increases, suggestion awards, and other cash incentive programs are designed to encourage quality production. This basic set of incentives exists to accomplish the same results in-house as the award fee pool for contracted performance. However, these are not addressed in A-76 implementing directives. If the Government is prepared to incentivize performance with dollar awards, it may be worth considering the use of award fee pools for in-house performance. The effect of such a policy would tend to put contracted effort and in-house effort on a more even footing vis-á-vis cost comparison, operational effectiveness, and cost efficiency.

3. In Writing Solicitations for FPAF Contracts, Limit the Contractors' Ability to "Game" the Award Fee.

The award fee is not intended to be ordinary profit for the contractor. It is an incentive intended to encourage performance above standard and hence, above ordinary profit margins. The observations stated in this thesis support the notion that contractors assume they will earn a portion of the award fee (or all of it)

consistently, and they bid accordingly. Moreover, contractors also seem to feel that in an award fee solicitation, this approach is their only option considering the forces of competition. This action would bias the cost comparison process because the Government cannot compete for an award fee, and the parties would be bidding on essentially different standards.

One way to alleviate part of the situation described here is to structure the solicitation differently. For example, offer an award fee pool of "...between zero and ten percent..." of the negotiated price. The actual amount to be fixed after source selection. This option is supported by the Director of Contract Pricing, Assistant Secretary of the Navy (S&L) [Ref. 19]. The principle benefit to this mechanism would be to encourage contractors to submit more realistic bids; relying less on guesswork and gaming and more on cost realism in bidding the competition, especially if the competition is the Government.

4. Modify OPNAV Instruction 4860.7B, PERFORMANCE OF COMMERCIAL ACTIVITIES to Include A Discussion of Navy Policy Regarding Alternative Contract Types for CAs.

CA policy and contracting policy will continue to have important impacts on the support missions performed at bases in DoD. The contracting regulations which directly impact the CA program (such as how and when to use certain contract types) should be addressed via policy doctrine in the CA implementing directive, 4860.7B. Alternatively, the relevant procurement regulations could be referenced at the beginning of the instruction.

In any case, the interaction of the contracting discipline and CA discipline will become more visible as Executive Order 12615 is implemented, bringing a greater number of functions under contracted performance. Planning for this eventuality, it is recommended that the Chief of Naval Operations, (OP 443), establish a liaison with the Navy Competition Advocate to discuss incorporating appropriate contracting guidance in the basic CA directive.

5. FPAF Contracts Are Superior to Firm Fixed Price Contracts For the Performance of Base Services.

The matters which give rise to the seven commercial activities performance issues relate directly to the use of FPAF contracts insofar as FPAF contracts expand the performance horizon, abbreviate specifications complexities, espouse better communication, and offer greater flexibility to both Government and Contractor.

Some problems in the CA program may be abated using FPAF contracts vice firm fixed price contracts, but structural barriers regarding contract-type selection for CAs should be examined by the Navy Competition Advocate. This action could be a precursor to a class deviation from FAR granting blanket approval for use of FPAF contracts, and is in consonance with the acquisition streamlining programs now being pursued by DoD.

Evidence indicates that the award fee contract improves relations between Government and Contractor in the cases examined. Discussions between parties tended more toward end results in performance rather than the means to achieve them. The PWS became a more succinct summary of expected results, insofar as the contractor was motivated to deliver what the Government needed, not just what it specified.

Quality performance became an item higher on the agenda for the contractor, and in the given examples, the award fee portion of the contract is directly attributable for increased quality. In one case, the award fee was consistently distributed almost 100 percent to the contractor, but he expressed unbridled willingness to invest in capital and labor where necessary to continue quality performance because of the award fee. In other cases, the award fee contract was buying better quality allegedly at about the same cost as firm fixed price contracts due to two factors:

1. The forces of competition tend to drive-down the fixed price portion of the bid in anticipation of earning part of the fee (irrespective of the "gaming" factor).
2. The positive effect of rewarding excellent performance has a psychological advantage over the negative aspect of having funds deducted for less than adequate performance. Contractors tended to structure bids in consideration of this, and made visible efforts to please the customer command.

Source selection processes used for FPAF contracts alleviate the liklihood of problems indigenous to sealed-bid contract awards, and reduce considerably the probability of contractors buying-in.

The intangible benefits of FPAF contracts cannot be shown to contribute to CA program savings by the analytical techniques used in this thesis. However, without a broader application of accounting principles

vis-á-vis allowable and allocable CA program costs, actual CA program savings remain indeterminate. While increased savings may precipitate from better quality and better value with FPAF contracts as a vehicle, there does not appear to be enough evidence to quantify the added savings.

Concluding: Within the scope of this thesis, the benefits appear to outweigh the costs of FPAF contracts for commercial activities under the right conditions of competition, cost analysis, and cooperation between parties.

6. Further Research

It is recommended that further research be conducted regarding the cost-benefit approach to selection of contract type for commercial activities. The researcher sees a need to establish a greater degree of cost realism for the CA program in order to accurately assess the potential for return on investment. Answering questions about the decision variables in the contract selection process and quantifying those variables may offer more useful indices of performance than are available currently.

AWARD FEE DETERMINATION PLAN (AFDP)

A. INTRODUCTION

1. This plan covers the administration of the award fee provisions of Contract No. N62474-_____

_____

2. General Information

a. The base contract period and the term to which this plan applies is _____ months commencing _____. This contract has four option years. In the event an option year is exercised, a new (revised) plan must be approved by the Fee Determination Official (FDO) for that option period. The new plan must be submitted to the Contracting Officer (WESTDIV) for transmittal to the FDO at least thirty (30) calendar days prior to the start date of the option period. Any resulting changes to the contract provision "AWARD FEE EVALUATION," in Section E of the contract, must be made by unilateral modification and forwarded to the contractor at least fifteen (15) calendar days prior to the start of the option period.

b. Each award fee period lasts three (3) months. Evaluations will be conducted at the end of each award fee period in accordance with Part C of this plan.

c. The estimated cost of performing the contract is $_____.

d. The award fee pool is $_____.

e. The award fee pool is a fixed amount and is not subject to variances in ordering of work or changes made pursuant to the "CHANGES - FIXED PRICE ALTERNATE II" clause in Section I of the contract.

f. The award fee earned and payable will be determined each period by the Fee Determination Official in accordance with this plan.

g. Award fee determinations are not subject to the "DISPUTES" clause in Section I of the contract.

h. In accordance with Part D, paragraph D.2c, the FDO may unilaterally make changes to this plan that do not otherwise require mutual agreement under the contract.

B. ORGANIZATIONAL STRUCTURE FOR AWARD FEE ADMINISTRATION

1. The following organizational structure is established for administering the award fee provisions of the contract:

a. Fee Determination Official (FDO)

The FDO is the Commander, Western Division, Naval Facilities Engineering Command.

(1) Primary FDO responsibilities are:

(a) Review findings and recommendations of the Award Fee Determination Board, the Contractor's self evaluation and any other source of information deemed pertinent.

(b) Determine the award fee earned and payable for each evaluation period as addressed in Part C.

(c) Document determination of the amount of award fee earned for each period in an Award Fee Determination Report (AFDR).

(d) Change matters covered in this plan as adressed in Part D as appropriate.

b. Award Fee Determination Board

(1) The Chairperson of the Board is:_____
The following are voting members:

(a) _____

(b) _____

[The Chairperson may recommend the appointment of non-voting members to assist the Board in performing its functions.]

(2) Primary responsibilities of the Board are:

(a) Review the evaluations submitted by the Activity Award Fee Evaluation Committee for the evaluation (performance) period.

(b) Prepare an Award Fee Determination Report (AFDR) for submission to the FDO for each evaluation (performance) period, as addressed in Part C of this plan.

(c) Consider proposed changes to this plan and recommend adoption to the FDO, if appropriate, as addressed in Part D of this plan.

(3) Specific functions of the Board Chairperson are:

(a) Coordinate efforts of the Board to ensure the timely review and evaluation of reports submitted by the activity Award Fee Evaluation Committee, activity Performance Monitors and the Contractor.

(b) Ensure that all board members get copies of all evaluation (performance) reports; a copy of the contract with all modifications thereto; and a copy of this plan and any changes made in accordance with Part D of this plan.

(c) Ensure that the AFDR is completed and submitted to the FDO in a timely manner.

(d) As appropriate, request and obtain performance information from other units or personnel normally involved.

c. Activity Award Fee Evaluation Committee

(1) The Chairperson of the Activity Evaluation Committee will be either the OIC or a representative designated by him.

(2) This Committee will monitor, evaluate and assess the Contractor's performance based upon the criteria elements listed elsewhere herein.

(3) The Committee will meet and make specific performance evaluations each month during the evaluation (performance) period. Once, every three months, the Committee will submit a formal evaluation report to the AFDB. The Committee report will include a recommendation as to the numerical grade rating to be assigned, which shall be a measure of the Contractor's performance for the three-month evaluation period. A copy of the Committee's report will be furnished to the Contractor.

(4) The OIC will assign a Performance Monitor (PM) for each performance area to be evaluated under the contract. PMs shall be selected on the basis of their expertise (administrative or technical) relative to the prescribed performance areas. Duties of PMs will be in addition to, or an extension of, their normal responsibilities. PMs shall be appointed as member of the Activity Evaluation Committee.

(5) The Committee will meet with the Contractor on a monthly basis to discuss his overall performance.

(6) The Committee Chairperson will ensure that all committee members and/or PMs receive the following:

(a) A copy of the contract and all modifications.

(b) A copy of this plan and any changes made in accordance with Par* D.

(c) Appropriate orientation and guidance.

(d) Specific instructions applicable to PM assigned performance areas.

d. Performance Monitors (PMs)

(1) A PM will be assigned to each performance area to be evaluated. The assignment will be made by the OIC or his representative designated as Committee Chairperson.

(2) Each PM will be responsible for complying with any specific instructions from the Committee Chairperson. Primary PM responsibilities will be to:

(a) Monitor, evaluate and assess Contractor performance in assigned performance areas in accordance with the criteria elements listed elsewhere herein.

(b) Submit a monthly Performance Monitor Report (PMR) to the OIC or designated Committee Chairperson. The PMR must address the criteria elements for each performance area assigned, providing a narrative rationale to support the evaluation for each criteria element. When requested, PMs should be prepared to make verbal presentations to the OIC or the Committee Chairperson.

(c) Recommend appropriate changes to this plan in accordance with Part D.

C. EVALUATION REQUIREMENTS

1. Evaluation Criteria and Numerical Rating

a. The award fee determination criteria for the award fee period of _____ through _____ is identified below:

Criteria Element	Relative Weight
1. Quality of Work	35%
2. Contractor Response to Emergency and Priority Service Calls	15%
3. Timely Completion of Work	30%
4. Required Reports and Submittals Prepared in Proper Format Submitted in a Timely Manner	10%
5. Cooperation and Ingenuity	10%

b. Numerical Rating

Numerical Rating	Adjective Rating	
95 - 100	Excellent	The best performance that could be expected by any Contractor. Contractor consistently exceeds the expected performance level for the criteria elements.

Numerical Rating	Adjective Rating	
88 - 94	Very Good	Additional effort is required for the Contractor to perform at a superior level. Contractor consistently meets and normally exceeds the expected performance level for the criteria elements with no major performance problems noted.
80 - 87	Good	Constractor normally meets or exceeds most of the expected performance levels for the criteria elements. The Contractor's overall performance should be rated as above average. The Contractor normally performs at a level where no major performance problems are noted, and very few minor problems are noted.
71 - 79	Marginal	Contractor partially meets the expected performance level for the criteria elements. Performance is in general, inconsistent. Minor problems exist throughout most of the criteria elements, along with occasional major problems. Performance at this level will likely support the issuance of a Cure Notice.
Below 70	Unsatisfactory	Consistently fails to meet the expected performance level for the criteria elements. Major performance deficiencies exist. Performance may be basis for the Officer in Charge to initiate termination for default action.

2. Computation of Evaluation Score

a. Each criteria element is individually rated with a numerical score. The score is then multiplied by the relative weight of the criteria element. The sum of the scores for all criteria elements will yield the overall evaluation score as follows:

Criteria Element	Weight	[X]	Score	= Point Value
1. Quality of Work	.35			
2. Contractor Response to Priority & Emergency Service Calls	.15			
3. Timely Completion of Work	.30			
4. Reports Prep./Submission	.10			
5. Cooperation & Ingenuity	.10			

Contractor's Overall Evaluation Score =

3. Evaluation Periods and Maximum Available Award Fee

a. The maximum award fee for the base contract year is $_____.

b. There are four evaluation periods. The duration of each evaluation period is three (3) months with the first period beginning on the contract start date (immediately after the phase-in period). The portion of the award fee available for each quarterly evaluation shall be in accordance with the following schedule:

Award Period	Percentage of Fee Available
1	25%
2	25%
3	25%
4	25%

4. Payment of Award Fee

a. The award fee for each period shall be computed as follows:

Maximum Award Fee Available for Base Contract Year		Percentage of Fee Available	=	Fee Available for the period
_____	X	.25	=	_____

b. The Contractor's overall evaluation score when compared to the Award Fee Schedule shown below, will determine the percentage of earned award fee to be paid the Contractor during the evaluation period.

c. Award Fee Schedule. The following schedule establishes the percent of fee to be awarded for the overall evaluation score.

Overall Evaluation Score	Percentage of Earned Award Fee for Evaluation Period
79 and below	0%
80	5%
81	10%
82	15%
83	20%
84	25%
85	30%
86	35%
87	40%
88	45%
89	50%
90	60%
91	70%
92	80%
93	90%
94	95%
95 and above	100%

d. The earned award fee shall be paid as a lump sum after each quarterly evaluation period.

e. Any unearned portion of the award fee for an evaluation period will not be carried over to the next evaluation period.

5. Evaluation Procedures

a. A determination of the award-fee earned for each evaluation period will be made promptly by the FDO at the end of each period. The method to be followed is described below:

(1) Within seven (7) calendar days following the end of each month, except the final month of the evaluation period, the activity Evaluation Committee Chairperson shall meet with the Contractor to discuss his performance during the period as part of the Government's ongoing quality assurance effort. PMs and other personnel involved in performance evaluations should attend these meetings and participate in discussions. Within seven (7) calendar days after the close of the evaluation period, the activity Evaluation Committee Chairperson will consolidate the Committee's monthly reports and submit a formal evaluation report, along with the Contractor's self-evaluation report the AFDB. These reports should be forwarded to reach the AFDB within twelve (12) calendar days after the close of the evaluation period. When requested, the activity OIC or Evaluation Committee Chairperson should be prepared to make a verbal presentation of the Committee's report before the AFDB.

(2) After receipt of the above mentioned reports, the AFDB may at its discretion, allow the Contractor to make a verbal presentation of his performance. The purpose of such a presentation is to allow the Contractor an opportunity to provide input to the AFDB before the Board formalizes and submits its evaluation report to the FDO.

(3) Within fifteen (15) calendar days following the close of each evaluation period, the AFDB will meet and consider all Contractor performance information received and prepare a written report summarizing the Board's findings and recommendations. The report should be a consensus of all voting board members. Each voting member shall sign the AFDB report to indicate agreement. Each criteria element shall be addressed with narrative rationale to support the numerical ratings and overall evaluation score. The report shall also include the recommended award fee amount. If a voting member disagrees with the numerical rating for one or more of the criteria elements, a minority report may be written by that member to address his/her reasons for the disagreement. The AFDB report and any minority reports will be forwarded to the Contracting Officer (WESTDIV) for transmittal to the FDO.

(4) The AFDB shall notify the Contractor of the results of the evaluation by forwarding a copy of the Board's report to the Contractor. Within seven (7) days after receipt of the Board's report, the Contractor may submit a written response to the report to the Contracting Officer (WESTDIV) for transmittal to the FDO.

(5) The FDO will consider the Board's report, the Contractor's self-evaluation (if submitted) and any other information deemed pertinent.

(6) The FDO will determine the amount of the award fee earned during the period. The amount determined will not result solely from mathematical summing, averaging or the application of a formula. The FDO's determination will be stated in AFDR. This report will also provide invoicing instructions to the Contractor. The AFDR will be furnished the Contractor approximately fourteen (14) calendar days after receipt of the AFDB report and will not be subject to the "Disputes" clause in the contract.

D. CHANGES IN PLAN COVERAGE

1. Right to Make Unilateral Changes

Any matters covered in this plan not otherwise requiring mutual agreement under the contract, except the designated FDO, may be changed unilaterally by the FDO prior to the beginning of an evaluation period by timely notice to the Contractor in writing. The changes will be made without formal modification of the contract.

2. Method for Changing Plan Coverage

The method to be followed for changing plan coverage is described below:

a. Personnel involved in the administration of the award fee provisions of the contract are encouraged to recommend changes in plan coverage with a view toward changing management emphases, motivating higher performance levels, or improving the award fee determination process. Recommended changes should be sent to the AFDB for consideration and drafting.

b. At least 21 calendar days prior to the end of each evaluation period, the AFDB will submit changes applicable to the next evaluation period for approval by the FDO with appropriate comments and justification, or inform the FDO that no changes are recommended for the next period.

c. Any resulting changes to the contract provision entitled "AWARD FEE EVALUATION," in Section E of the contract, must be made by unilateral modification and forwarded to the Contractor at least ten (10) calendar days before the beginning of each evaluation period, the FDO will notify the Contractor in writing if there are no changes. If the Contractor is not provided with this notification, or if the notification is not provided within the agreed-to number of calendar days before the beginning of the next period, the existing plan coverage will continue in effect for the next evaluation period.

d. Notification at a later date or alteration of criteria (including added criteria) after an award fee period has begun must be agreed to by both parties.

NOTES

1. Enter the Attachment Number at the top of the page.

2. Number pages to coincide with other Section J page numbering.

3. Part A - Introduction

a. Paragraph 1: Enter the contract number; type of service contract, i.e., Housing Maintenance; and the activity name and location.

b. Paragraph 2: Enter the number of months of the base contract period, i.e., twelve (12); also enter the contract start date.

c. Subparagraph 2c: Enter the contract amount.

d. Subparagraph 2d: Enter the amount of the award fee pool.

4. Part B - Organizational Structure for Award Fee Administration. Enter in Subparagraph 1b, Award Fee Determination Board, the titles of Board members. Do not enter names.

5. Part C - Evaluation Requirements. Enter in Subparagraph 1a the dates of the evaluation period (three month period).

6. Computation of Evaluation Score

a. For each criteria element, the Contractor should be given a numerical rating from Subparagraph 5b, Part C.

b. Computation of Evaluation Score: Example

Criteria Element	Weight	[X]	Score	=	Point Value
1	.35		90		31.5
2	.15		90		13.5
3	.30		100		30.0
4	.10		90		9.0
5	.10		90		9.0
		Overall Evaluation Score =			93.0

7. Criteria elements for evaluation should be selected based upon type of service being procured.

8. Subparagraph 32, Part C: Enter the maximum award fee for the base period, i.e., $200,000.00.

9. Subparagraph 3b, Part C: Enter the percentage of fee available for each evaluation period (four [4] periods), i.e., 25%. These percentages are not static. The OIC or Contracting Officer may want to allow the Contractor a larger percentage in the first period than in the fourth period, i.e., 30, 25, 25, 20.

10. Paragraph 4, Part C:

a. Computation of the award fee earned during the evaluation period:
Example

$200,000.00	Max. Award Fee Available (Base Period)
x .25	Percentage of Fee Available
$ 50,000.00	Fee Available for the Period

b. In the example above, the Cntractor earned an overall evaluation score of 93. By comparing this to the Award Fee Schedule in Subparagrpah 4b, Part C, it can be determined that the Contractor earned 90% of the fee available for the period, or ($50,000 x .90) $45,000.

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